

REQUEST FOR APPROVAL OF COMMUNITIZATION AGREEMENT

Headington Oil Limited Partnership
7557 Rambler Road
Suite 1100
Dallas, TX 75231

Township 22 North, Range 58 East
Section 14: ALL
Section 23: ALL
1280.00 Acres
Richland County

State Tract(s):
Section 14: W½
320.00 Acres
Trust: Common Schools

Headington Oil Limited Partnership has filed a request with the Department for the approval of a communitization agreement to communitize State owned acreage to permit development in conformity with regulations of the Montana Board of Oil and Gas Conservation Commission (BOGC).

A communitization agreement brings together small tracts sufficient for the granting of a well permit under applicable spacing rules. Communitization agreements are not formed until after a well has been drilled and proven to be productive. The communitization agreement provides for distribution of royalties and must be approved and signed by the Department to be effective. Communitization is important in the prevention of drilling of unnecessary and uneconomic wells which would result in physical and economic waste.

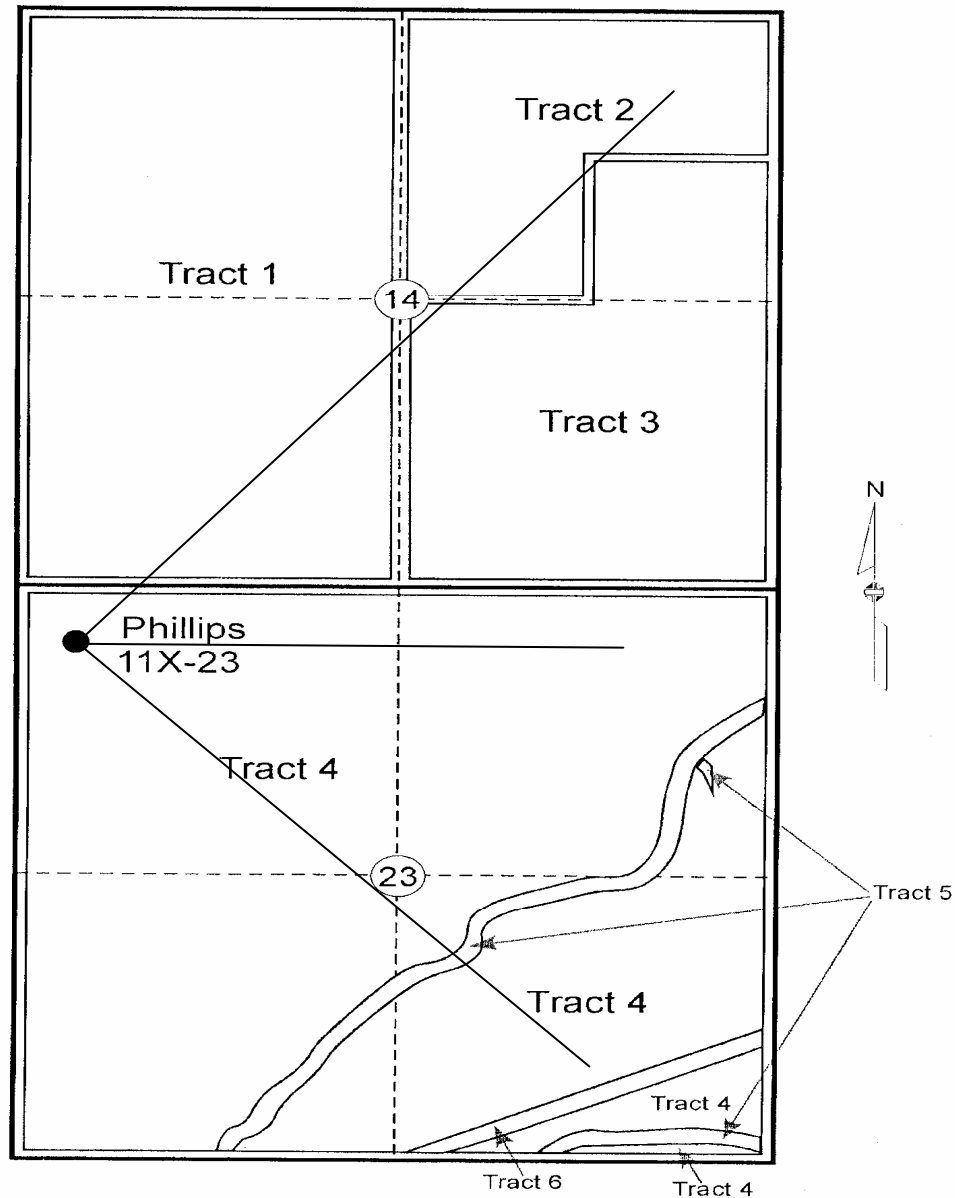
The Phillips 11X-23 well, which is a tri-lateral horizontal Bakken formation oil well, was drilled in the NW¼NW¼ of Section 23. This spacing unit has a total of 1280.00 acres. The State owns a total of 320 acres of the 1280 mineral acres in the spacing unit that will be communitized. All the mineral owners in the spacing unit will share in the royalty from this well. The Communitization Agreement includes the Bakken formation in Sections 14 & 23.

The State has 1 tract which comprises 25% of the communitized area. The communitized production will be allocated to each tract based upon the relationship of its acreage to the total acreage within the communitized area. The State will consequently receive 3.25% of all oil production (13% royalty rate x 25% tract participation), and 3.125% of gas production (12.5% royalty rate x 25% tract participation) for Tract 3.

The Communitization Agreement will allow the State to receive its proper share of production from the spacing unit. Therefore, the Director recommends approval of this Communitization Agreement.

Township 22 North, Range 58 East

Sections 14 & 23



Recapitulation

Tract No.	Type	Acres	Tract Participation	Royalty %	Owners Interest Decimal
1	State of MT OG-35019-03	320.00	25.0000%	13.00%	0.0325
2	Federal Lease MTM-93377	120.00	9.3750%	12.50%	0.011719
3	Jill Staffanson	200.00	15.6250%	16.67%	0.026047
4	Bank Of America et al	591.86	46.2391%	various	various
5	Federal Lease MTM-94222	35.05	2.7383%	12.50%	0.003423
6	BNSF Railway	13.09	1.0227%	25.00%	0.002557

* The Operator of the communitized area will be Headington Oil Limited Partnership